

The background is a solid red color with a pattern of thin, blue, irregular geometric lines that create a complex, abstract design. A bright yellow circle is positioned on the left side of the image, containing the text 'Chickp.' in a bold, dark blue font.

Chickp.

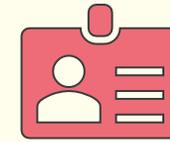
Your obligations as an employer

What we will cover in this document

Chickp.

- 1) The difference between an employee, a worker and self employed status
- 2) The basics of employing someone
- 3) Your record keep requirements
- 4) How we set up a PAYE scheme
- 5) The basics of real time information (RTI)
- 6) Key definitions and deadlines
- 7) Where we find forms and guidance
- 8) How much we have to pay someone
- 9) What we need to know about our employees to send information to HMRC
- 10) What gross pay is, for tax and NI purposes
- 11) UK tax year
- 12) About devolution and tax
- 13) Payments we must make to HMRC
- 14) What we need to know about payslips

What's the difference between an employee, a worker and self-employed status?



Chickp.

An **employee** is someone with an employment contract that obliges them to do the work that is offered and to do that work personally, i.e. not send somebody else in their place instead. Employees have rights to:

- a certain level of pay (NMW)
- sickness, holiday and family-related leave and pay
- a workplace pension if they earn enough and are old enough
- redundancy pay after two years
- protection from unfair dismissal and other discriminatory practices.

Employees will pay tax and NI through the PAYE system if their earnings are high enough.

Workers have a contract for professional service i.e. they, like employees, have to do the work themselves, but have no right to be given work and do not have to accept it when offered. If they are in business, i.e. classed as self employed they can be paid gross via an invoice. If they are not in business, they must be paid through PAYE like an employee.

TIP

How a worker is paid does not affect their employment rights, which are not the same as for an employee. They are only entitled to the NMW, holiday pay and a workplace pension if they earn enough and are old enough.

Nobody can simply say that they are self-employed and invoice an employer for their services. To be self-employed you must at the very least:

- be responsible for how and when you work
- be the owner of a business
- tender for contracts to provide services for clients
- be able to send someone else to do the work for you
- be able to work for different clients and charge different fees.

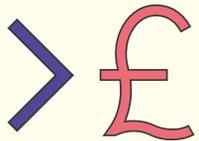
Trap. It's attractive for a business to use a self-employed workforce, as this avoids the payment of employers' NI and the apprenticeship levy. But if you're found not to have correctly assessed somebody's employment status, you'll be liable not only for these costs but also for the individual's tax and NI, plus penalties and interest.

What are the basics of employing someone?

As soon as you employ someone, and you start paying them, you have to consider if you need to report their payments to HMRC. To do this you have to register for a PAYE scheme. If all of the following are true, the law **does not** require you to set up a PAYE scheme and report information to HMRC:

- your employees are all paid less than the current lower earnings limit (£120 p.w until 5 April 2021)
- your employees don't get expenses and benefits (such as a company car or medical insurance)
- your employees don't have another job with someone else
- your employees don't receive a pension as well as working for you.

You must register for a PAYE scheme even if you're only employing yourself, e.g. as the only director of a limited company.



What are our record keeping requirements?

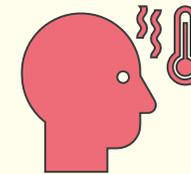
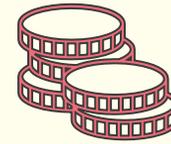
Even if you aren't obliged to set up a PAYE scheme you must still keep records as follows:

- what you pay your employees and any deductions you make
- an employee's annual leave and sickness absences.

You need to keep records for three years from the end of the tax year they relate to.
If you are obliged to set up a PAYE scheme, you'll also need to have records of:

- reports and payments you make to HMRC
- tax code notices
- taxable expenses or benefits provided to employees.

These records can be inspected by HMRC and other enforcement agencies to ensure your employees are being treated appropriately.



How do we set up a PAYE scheme?

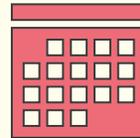
You must register before the first payday for your employee(s), but you can't register more than two months before you start paying people.

It usually takes up to five days to get your employer PAYE scheme reference number.

The registration is done online at <https://www.tax.service.gov.uk/eligibility-for-payee/one-director-national-insurance>, if you're a limited company, and at <https://www.gov.uk/register-employer/y> if you're operating under a different structure such as a partnership or charity.

TIP

You need your scheme reference number to send payment details on a full payment submission (FPS) to HMRC. If your number hasn't arrived and you need to pay somebody, run the payroll and store the FPS. You can insert the number when it arrives and report the FPS with a late reporting reason.

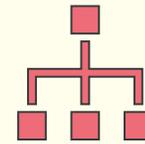


What are the basics of real time information (RTI)?

Once you've established that you need a PAYE scheme you will report information to HMRC using the RTI system. This is an online reporting system that interfaces with HMRC's National Insurance and PAYE Service (NPS). You send an FPS each time you pay people and sometimes you need to send a second reconciliation file called an employer payment summary (EPS) file once a month if you need to reclaim money from HMRC or give it other information. Your payroll software will create the FPS and EPS and remind you to send them.

NPS records tax and NI information about the UK's 45m taxpayers. NPS also shares and receives information from other government departments and local authorities, e.g. in respect of the provision of benefits like universal credit and housing benefit, where up-to-date earnings information is vital.

Predominantly, RTI is used to report earnings information. Details of benefits such as company cars and medical insurance are reported on a Form P11D, that can be sent on paper or online, at the latest three months after the end of the tax year which is 6 July. Some employers choose to report their benefits in kind through RTI as well - this is called payrollling benefits.



What are the key definitions and deadlines?



We've included a glossary of payroll terms in *Appendix 1* as there is a lot of unusual terminology to get to grips with. As an employer there are reporting deadlines that you must keep to or you could incur a financial penalty.

Task	Deadline
Tax year start: set up payroll for new year in software	6 April - tax months run from 6 to 5. If you're paid on, or after, 6 April that is your first payment of the new tax year
Final file for the tax year	19 April - a marker must be set in either an FPS or EPS to close the year down
Final settlement date for previous tax year's liabilities	22 April - then monthly by 22nd for each prior month if paying electronically
FPS	On, or before, contractual date of payment
EPS	By 19th of month following relevant tax month end
P46 (car) forms for January to April quarter	3 May unless benefits are payrolled then nothing is sent
P60s to employees for previous tax year (a P60 provides an employee with details of their pay, tax and NI for the tax year)	31 May
P11D/P11D(b) expenses and benefit returns	6 July
P46 (car) forms for May to July quarter	2 August
NI on PAYE settlement agreement	19 October
P46 (car) forms for August to October quarter	2 November unless benefits are payrolled then nothing is sent
P46 (car) forms for November to January quarter	2 February unless benefits are payrolled then nothing is sent
YTD FPS/earlier year update to correct previous tax year (earlier year update abolished 6 April 2021)	From 20 April onwards annually. Can go back six years to correct mistakes

Where can we find forms and guidance?

Employer responsibilities, and the legislation that supports them, change regularly. You must keep up with the latest information as ignorance of the law will not get you off a penalty. A lot of employer responsibilities are controlled by HMRC and it provides a bi-monthly “Employer Bulletin”.

There are also a number of guidance booklets listed below, to help you with your responsibilities. Most of them are updated for each tax year and are made available in February before the tax year starts in April.

TIP

You can receive an e-mail alert as soon as the Bulletin is published by signing up <https://tinyurl.com/y3owru98>

Title	Subject
CWG2 employer further guide to PAYE and NICs	Information about the more complex parts of running payroll
Manual tax tables B-D	Used to work out tax calculations manually, for example to check your payroll software is working properly
Tables A	A ready reckoner to work out an employee’s tax-free or adjusted pay which affect how much tax they pay
Booklet 480	A guide to benefits and expenses
Booklet 490	A guide to travel and subsistence
Holiday pay guidance	Basic guidance on calculating holiday pay. For employees without fixed hours or pay (https://www.gov.uk/government/publications/calculating-holiday-pay-for-workers-without-fixed-hours-or-pay)
NMW	Guidance on the law relating to rates of pay (https://www.gov.uk/government/publications/calculating-the-minimum-wage/calculating-the-minimum-wage)

How much do we have to pay someone?

There are legally binding national minimum rates of pay that are dictated by a person's age or status. Sadly, it's not as simple as ensuring that their gross pay per hour is at least the current rate for their age or status. You have to ensure that their basic pay (excluding premium payments like overtime and shift allowances) are at least the NMW and that you do not make any reductions to their gross pay that would reduce their wages below the appropriate rate, such as for childcare or pensions (the guidance above will help you get it right).

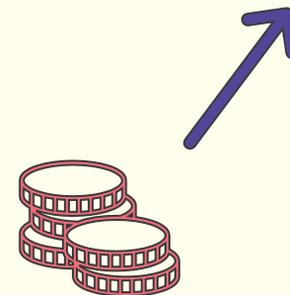
NMW rates usually change each April. The new rates have to be applied for pay periods that begin on, or after, 1 April. So, for example if an employee is paid weekly from Sunday to Saturday and the Sunday at the start of the week is 31 March, the new NMW would begin from the following week: Sunday 7 April.

The 2020/21 rates per hour are:

- Aged 25 and over: £8.72
- Aged 21-24: £8.20
- Aged 18-20: £6.45
- Aged under 18: £4.55
- Apprentice (under 19 or in first year): £4.15

TIP

There are also some deductions taken from the net pay that also have to be taken into account when calculating if the NMW has been paid: for example, payments for uniforms, tolls and accommodation.



What do we need to know about our employees to send information to HMRC

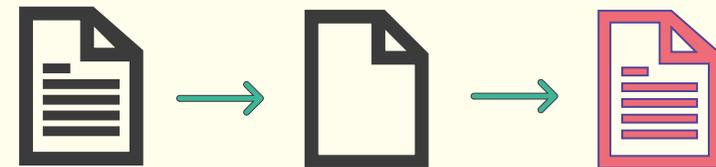
There are a number of mandatory pieces of personal data that HMRC needs to match your new employee's record to its master record on the NPS, that you must collect and supply alongside their first payment. If you ensure that every employee completes a starter checklist, <https://www.gov.uk/government/publications/payee-starter-checklist> (even if they give you a P45) you will have all the information that you need:

- first name
- last name
- two lines of their address
- NI number if they have one
- gender (this must be the birth gender unless a gender reassignment certificate has been issued and employees must make a declaration of gender)
- date of birth
- employment start date
- student loan information
- employee statement A, B or C.

You must also record what supporting information you have seen that proves that this is accurate information, e.g. a passport, birth certificate or utility bill in the case of the address.

TIP

You can collect and store the starter information electronically if you don't want to ask new employees to fill in the paper form, but you must ensure if you design your own electronic form that you ask all the same questions that are on the official paper form provided by HMRC.



What is gross pay for tax and NI purposes?



Any cash earnings that an employee receives have to be considered for tax and NI. The employee's total cash earnings in a pay period (a week, month or whatever the employee's pay frequency is) is known as their gross pay. Tax and NI will be deducted from the gross pay when it reaches the thresholds set for the tax year concerned. The thresholds where you start paying tax and NI are different and normally change each April. The current thresholds can be found at <https://www.gov.uk/guidance/rates-and-thresholds-for-employers-2020-to-2021>.

TIP

As well as cash earnings being subjected to NI, some other things that you might provide/pay on behalf of your employees must also have NI deducted from them. The commonest ones are: retail gift vouchers, private mobile phone bills and home phone bills.



When is the UK tax year?

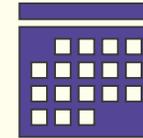
The tax year runs from 6 April to 5 April. This is very unusual as in most countries the tax year is aligned to the calendar year. The weekly tax calendar (for those who are weekly paid) works like this:

- 6 April to 12 April - Week 1
- 13 April to 19 April - Week 2, and so on, until...
- 28 March to 3 April - Week 52



For weekly payments on 4 and 5 April treat the payment as another Week 1
And for monthly paid employees:

- 6 April to 5 May - Month 1
- 6 May to 5 May - Month 2, and so on, until...
- 6 March to 5 April - Month 12



What about devolution and tax?



Whilst the tax year is the same, there are three different tax regimes in place: Wales, Scotland and England/Northern Ireland. If you employ people that HMRC determines to be Welsh or Scottish taxpayers, you will receive a tax code with a C at the front for Wales and an S at the front for Scotland. Your payroll software will then do the correct calculation. NI is not a devolved matter and there are no differences in the four countries.

The tax rates and bands for 2020/21 in England, Wales and Northern Ireland are:

Band	Taxable pay	Tax rate
Personal allowance	Up to £12,500	0%
Basic rate	£12,501 to £50,000	20%
Higher rate	£50,001 to £150,000	40%
Additional rate	over £150,000	45%

The tax rates and bands for 2020/21 in Scotland are:

Band	Taxable pay	Scottish tax rate
Personal allowance	Up to £12,500	0%
Starter rate	£12,501 to £14,585	19%
Basic rate	£14,586 to £25,158	20%
Intermediate rate	£25,159 to £43,430	21%
Higher rate	£43,431 to £150,000	41%
Top rate	over £150,000	46%

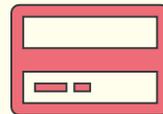
What payments must we make to HMRC?

You are required to pay over the tax, NI, student loan deductions, construction industry deductions and apprenticeship levy as one total payment for each tax month by the 22nd of the month following. For example, deductions for month one (April) have to be paid over to HMRC by 22 May.

You reduce your payment of tax etc. by any amounts that you can reclaim from HMRC (family-related payments and any employment allowance you're entitled to) which will be shown on your EPS and on reports from your payroll software.

Payments that are made by cheque through the post have to be cleared with HMRC by an earlier deadline of the 19th of the month - you cannot pay by cheque at the Post Office. You can pay at a bank or building society or by credit card. You need to make sure that you pay in full and on time or you can face a penalty and daily interest.

You'll need a payment booklet from HMRC to pay at your bank or building society, or by post. This should be sent to you when you register your PAYE scheme. When paying online make sure you use your HMRC accounts office reference and add the relevant year and month to your payment reference so that the amount is posted to the correct tax month. The month and year references can be found at <http://www.hmrc.gov.uk/tools/payinghmrc/currentyear.htm> Your accounts office reference will have been given to you when you registered for PAYE - it is not the same as your PAYE scheme reference.



TIP

When you take on your first employee it is likely that your payments will be low. If they are less than £1,500 per month you can pay HMRC quarterly which will help your cash flow. So instead you'd pay on the 22nd of the month after the relevant quarter end: 22 July, 22 October, 22 January and 22 April.

TIP

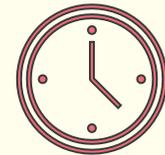
If the 19/22 falls on a weekend or bank holiday, make sure your payment reaches HMRC on the last working day before the due date.

What do we need to know about payslips?

Employees and workers (but not the self-employed) are legally entitled to receive a payslip each time that they are paid. Employers can choose whether they provide printed or electronic (online) payslips. Payslips must be provided on, or before, payday.

The payslip must show:

- earnings before and after any deductions
- the amount of any deductions that may change each time they're paid, for example tax and NI
- the number of hours worked, if their pay varies depending on time worked, for example due to overtime or a call-out
- any fixed deductions, for example repayment of a season ticket loan.



Key points

- It's important to know whether you are paying employees or workers.
- You may have to set up a PAYE scheme to report information to HMRC via the RTI system.
- You must ensure basic pay is at least the appropriate national minimum wage rate.
- HMRC must match the employee's record so you must ensure every employee completes a starter checklist.
- There are three different tax regimes: Wales, Scotland and England/Northern Ireland. Scotland has different tax rates and bands for 2020/21
- Deductions have to be paid to HMRC by the 22nd of the month (19th if paying by cheque).
- Employees and workers are legally entitled to receive a payslip on or before payday.

Contact us

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